

**METROPOLITAN COUNCIL
ANNUAL AUDIT ENTRANCE MEETING WITH THE AUDIT COMMITTEE
FYE 12/31/2020**

Date: February 23, 2021

Time: 1:00 pm

Location: Virtually through Webex.

Attendees: Met Council - Audit Committee
Matt La Tour – Director, Program Evaluation and Audit
Marie Henderson – Acting Chief Financial Officer
Mohamed Omar- Controller

OSA - Amy Ames – Audit Manager
Stephanie Kuka – Audit Director
Aaron Tri- LGA Intermediate

Purpose: The purpose of this presentation is to provide a two-way means of communication for matters related to the financial statement audit that are significant and relevant to the responsibilities of those charged with governance in overseeing matters related to financial reporting and the financial statement audit.

1. Staffing/Administration

OSA Staff: Staffing will remain fairly consistent with the last year.

Staff timing: Staff members have already begun initial audit planning, updating the systems narratives, and performing some of the testing. Audit work will be based on the schedules of completion dates which has been provided by management.

2. Statement on Auditing Standards (SAS) AU-C Section 260 – The Auditor’s Communication with Those Charged with Governance

Auditing standards define “those charged with governance” and establishes communication requirements between auditors and those charged with governance. At the Metropolitan Council we have identified those charged with governance over the financial reporting process as the members of the Metropolitan Council and the Audit Committee. Our audit engagement letter covers the specific matters to be communicated to those charged with governance, including:

A. Auditor’s responsibilities under generally accepted auditing standards:

- 1) Forming and expressing opinions about whether the financial statements prepared by management are presented fairly in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and to report on the fairness of the supplementary information. We issue two opinions—one on the financial statements, and one on the Metropolitan Council’s compliance with federal program requirements.

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- 2) Performing the audit in accordance with:
 - a. generally accepted auditing standards (issued by the American Institute of Certified Public Accountants);
 - b. standards for financial audits contained in *Government Auditing Standards* (issued by the Comptroller General of the United States);
 - c. the Single Audit Act Amendments of 1996;
 - d. the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (also known as the Uniform Guidance); and
 - e. legal provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*.
- 3) Considering the Council's internal control over both:
 - a. financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, and
 - b. compliance related to major federal programs.

However, we will not express an opinion on the effectiveness of the internal controls as this audit is not designed to do so.
- 4) Communicating significant matters related to the audit that, in the auditor's judgment, are relevant to the responsibilities of those charged with governance.

B. Management's responsibilities:

- 1) Designing, implementing, establishing, and maintaining effective internal controls, including controls over federal programs, and for evaluating and monitoring the ongoing activities; the selection and application of accounting principles; the preparation and fair presentation of the financial statements and all accompanying information; and compliance with applicable laws, regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements).
- 2) Identifying all federal awards received and understanding and complying with the compliance requirements and for preparation of the Schedule of Expenditures of Federal Awards in conformity with Uniform Guidance.
- 3) Identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

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- 4) Making all management decisions and performing all management functions relative to the financial statements, the Schedule of Expenditures of Federal Awards, and related notes, and accepting full responsibility for them.
- 5) Designating a qualified management-level individual to be responsible and accountable for overseeing our services. (Mohamed Omar has had this responsibility in the past.)
- 6) Making all financial records and related information available to us and for the accuracy and completeness of that information.
- 7) Providing us with (a) access to all information of which you are aware that is relevant to the preparation and fair presentation of financial statements, (b) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (c) additional information that we may request for the purpose of the audit, and (d) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- 8) Designing and implementing programs and controls to prevent and detect fraud, and informing us about all known or suspected fraud affecting the Metropolitan Council involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements.
- 9) Identifying and ensuring that the Metropolitan Council complies with applicable laws, regulations, contracts, agreements, and grants. Also, for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report.
- 10) Preparing the required supplementary information (RSI) and any other supplementary information reported in the financial statement report in accordance with U.S. GAAP.
- 11) Adjusting the financial statements to correct material misstatements.
- 12) Establishing and maintaining a process for tracking the status of audit findings and recommendations.
- 13) Identifying and providing us with report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of our audit as discussed in the engagement letter, and relaying to us corrective actions taken to address significant findings and recommendations identified as a result of those audits or engagements.
- 14) Providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.
- 15) Providing a summary schedule of prior audit findings.

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- 16) Providing us a written client management representation letter confirming certain representations made to us during the audit.

C. Overview of the planned scope and timing of the audit:

- 1) We will audit the basic financial statements of the Metropolitan Council for the year ended December 31, 2020. The level of federal funding received by the Council once again requires the audit to be a federal single audit (in accordance with the Single Audit Act Amendments of 1996).
- 3) The Council again will be seeking the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. This means that the Council needs to have the final comprehensive annual financial report (CAFR) submitted to the GFOA by June 30, 2021.
- 4) We will apply procedures to the Financial Data Schedule (FDS) to determine whether it is fairly stated in relation to the financial statements for the year ended December 31, 2020. We will compare the electronic submission of items identified by the U.S. Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) with the corresponding written documents.

We plan to begin the audit of the FDS approximately the middle of April (after the HRA Fund is complete) and issue our opinion and certify the REAC submission in conjunction with the Met Council's opinion.

- 5) We will apply certain agreed-upon procedures to the data used for the Federal Funding Allocation Statistics forms included in National Transit Database (NTD) reports for Metropolitan Council and Metro Transit.

We plan to begin testing the non-financial data for the NTDs at the beginning of April. Timing of the testing of the NTD's financial data will be determined by completion of the related fund audits. Per the 2020 FTA reporting manual, the last day for Met Council to submit report revisions is July 2, with closeout date of July 15. We hope to issue our final NTD reports no later than June 30, 2021.

- 6) We've been instructed by the State Auditor that OSA staff should continue working from home until further notice, and most likely through June 30, 2021. We therefore are planning to not be on site at the Council through most, if not all, of the audit this year. However, exceptions may be made if the need to be on site arises.

Our preliminary audit plan has us completing field work by the end of May 2021, but that is dependent on the schedule of completion. If all goes as planned we will issue our opinion on the financial statements and our Management and Compliance Report by June 30, 2021, in time for the Council to be in compliance with the GFOA's certificate program.

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- D. Audit findings will be communicated to management as the audit progresses. We will also communicate any significant audit findings at the management exit meeting.
- E. Communications about significant accounting policies, sensitive accounting estimates, significant audit adjustments, disagreements with management, difficulties encountered in performing the audit, and other significant issues arising from the audit will be communicated to those charged with governance in a separate letter at the conclusion of the audit.

3. Engagement Letter:

The engagement letter has been sent, it just needs to be signed and returned to us.

4. Federal Single Audit

For the 2020 audit, Metropolitan Council meets all of the qualifications needed to be considered a low-risk auditee for federal single audit purposes. This means we will only be required to test 20 percent (vs. 40 percent) of the Council's total federal dollars spent in 2020.

Since the Council expended more than \$100 million and less than \$1 billion, Type A federal programs are those with federal expenditures in excess of \$3,000,000 for 2020.

All Type A federal programs are required to be tested at least once every three years. Due to CARES Act funding we will be testing the following federal program for the 2020 audit:

- Transit Cluster (#20.500, #20.507, #20.525, #20.256)

We anticipate that this program will be more than adequate to meet the 20 percent testing threshold.

5. Status of Prior Year Findings

Finding Related to the Financial Statements

2019-001: Access to Computer Systems

During our review of access to the Metropolitan Council's computer systems, three of the 25 employees tested who had left employment did not have their network access revoked until 14 days or more after the individual's departure date. Additionally, there were four instances where the manager did not submit a termination request to notify Information Technology of an individual's end of employment.

This finding was not considered to be a material weakness.

We recommend the Metropolitan Council implement additional procedures to ensure the removal of a terminated employee's network access in a timely manner.

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We will perform additional follow-up testing of the computer systems access during the current audit.

Finding Related to Legal Compliance

2019-002: Contract Compliance

In two of the 15 contracts tested, there was language missing regarding the requirement for payment of interest by the contractor to the subcontractor if not paid on time.

We recommend the Metropolitan Council be compliant with all the contract language requirements in Minn. Stat. § 471.425, subd. 4a.

We will follow-up during the current audit to determine if this condition still exists.

6. New Accounting and Auditing Pronouncements

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. The following are new statements issued by the GASB that are effective for the Council's year ended December 31, 2020:

- **GASB Statement No. 83, *Certain Asset Retirement Obligations***

GASB Statement No. 83 establishes criteria for determining the timing and recognition of a liability and corresponding deferred outflows of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (such as decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines).

- **GASB Statement No. 84, *Fiduciary Activities***

GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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- **GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***

GASB Statement No. 88 will improve guidance related to information that is disclosed in notes to the governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

- **GASB Statement No. 90, *Majority Equity Interests—an Amendment of GASB Statement No. 14 and No. 61***

GASB Statement No. 90 will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units.

Additionally, Implementation Guides 2018-1, *Implementation Guidance Update – 2018* and 2019-2, *Fiduciary Activities* are effective.

The following are new statements issued by the GASB that are effective for the Council's year ended December 31, 2021:

- **GASB Statement No. 87, *Leases***

GASB Statement No. 87 will require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognize inflows/outflows of resources based on the payment provisions of the contract.

- **GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles or as an expense in a business-type activity or enterprise fund.

- **GASB Statement No. 92, *Omnibus 2020***

GASB Statement No. 92 enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

- **GASB Statement No. 93, *Replacement of Interbank Offered Rates***

GASB Statement No. 93 removes LIBOR as an appropriate benchmark interest rate and addresses accounting and financial reporting implications as a result of the removal.

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Additionally, Implementation Guide 2019-1, *Implementation Guidance Update – 2019* is effective.

The following are new statements issued by the GASB that are effective for the Council's year ended December 31, 2022:

- **GASB Statement No. 91, *Conduit Debt Obligations***

GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Additionally, Implementation Guide 2019-3, *Leases* is effective.

We will discuss with Metropolitan Council staff the potential impact the other new accounting pronouncements may have on the Metropolitan Council's financial statements.

7. Other Items

- A. Auditing standards require us to meet and communicate certain items to those charged with governance. Would you like us to meet with the full Council to go over what we discussed here today? If not, the notes on this meeting will be distributed to the Council.
- B. Fraud items
 - a. What are the Audit Committee's views about the risks of fraud?
 - b. Do you have knowledge of any actual, suspected, or alleged fraud affecting the entity or its federal award programs?
 - c. Do you have knowledge of any possible or actual noncompliance or abuses of programs and controls occurring the period being audited or the subsequent period?
 - d. What is the Audit Committee's role in the oversight of management's processes for identifying and responding to fraud risks? Does the Audit Committee take an active role in establishing policies and procedures to mitigate fraud risks? How does the Audit Committee oversee that established policies and procedures are in place?
 - e. Is the entity in compliance with laws, regulations, contracts, and grant agreements?
 - f. Is there anything else that you would like to add, or anyone else we should talk to regarding fraud?
- C. Any other questions, comments, or concerns?